Addendum to the Statement of Investment Principles

Samworth Brothers Limited Superannuation Scheme

Effective from: September 2024

This addendum to the Statement of Investment Principles (“SIP”) for the Samworth Brothers Limited Superannuation Scheme (the “Scheme”) has been produced by the Trustee of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme’s investment arrangements.

Part 1: *Investment governance, responsibilities, decision-making and fees*

We have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Scheme overall. Our investment powers are set out within the Scheme's governing documentation.

1. Trustee

Our responsibilities include:

- determining the investment objectives of the Scheme and reviewing these from time to time
- setting the investment strategy, in consultation with the employer
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, engaging with and replacing investment managers, investment advisers, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended) (the "Act")
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the SIP (and this addendum) and modifying as necessary.

2. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation; and informing the Trustee immediately on any breach of these terms
- taking account of financially material considerations (including climate change, and other Environmental, Social and Governance ("ESG") considerations) as appropriate in managing the assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for:

- safe keeping of the assets
- facilitating all transactions within the portfolios
- reconciling records of assets held with those of investment managers.

3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested
- advising on and monitoring liability hedging and collateral management
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)
- advising on a suitable AVC fund range
- assisting us with reviews of this SIP.

4. Fee structures

The provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. We have agreed terms with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management, and in some cases a performance related fee.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Scheme, and we keep the fee structures under review.

5. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the sponsoring employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time
- the agreed journey plan and employer contributions
- the Scheme's long-term and shorter-term funding targets
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged
- the Scheme's cash flow and target return requirements
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

Following implementation of the Scheme's current investment strategy, as at 31 October 2023, the Scheme's 1 year 95% Value at Risk was estimated to be £24m, on the technical provisions basis. This means that there is estimated to be a 1 in 20 chance that the Scheme's funding position will worsen by £24m or more, compared to the expected position, over a one year period. When deciding on the current investment strategy, we believed this level of risk to be appropriate given the Scheme's objectives.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type (eg equities), could materially adversely affect the Scheme's assets. We believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class and the AVC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long-term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

The Scheme is subject to credit risk because it invests in bonds via pooled funds. This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers, and predominantly invest in bonds that are classified as "investment grade".

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate.

Furthermore, we manage the amount of currency risk by investing in pooled funds that hedge currency exposure or implement separate currency hedging arrangements.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bond investments and a Liability Driven Investment ("LDI") portfolio. However, the interest rate and inflation exposure of the Scheme's assets provide protection against (hedges) part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short- and longer-term. This risk relates to the transition to a low-carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and we monitor how this risk is being managed in practice.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short- and longer-term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately and monitor how these risks are being managed in practice.

Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. We are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments and by investing in income generating assets, where appropriate.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, Columbia Threadneedle Investments makes use of derivative and gilt repos contracts and this is used to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The Scheme is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Scheme's liability hedging could be reduced, potentially leading to a worsening of the Scheme's funding level.

To mitigate this risk, the Trustee has a leverage management plan in place, which is reviewed and updated periodically. This sets out clearly the assets directly available to support the Scheme's LDI arrangements and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. As part of this leverage management plan, the Trustee periodically monitors the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

The Trustee has also given consideration to what further measures could be taken should the assets referred to in the leverage management plan prove insufficient to support the LDI arrangements.

Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as infrastructure), prices may only be estimated relatively infrequently using one or more of a range

of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as infrastructure.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Scheme. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding position.

Part 3:
Investment manager arrangements

Details of the investment managers are set out below.

JP Morgan – Infrastructure

The Scheme invests in infrastructure via a pooled fund called the Infrastructure Investments Fund. The Scheme first invested in this fund on 1 October 2018.

- The objective of this fund is to deliver an absolute return of 8-12% pa
- The underlying fund investment structure is denominated in US dollars, but the Trustee invests in a GBP-hedged share class of the fund
- The fund is structured as a Limited Partnership and has semi-annual redemption dealing. It is open ended and is unlisted.

JP Morgan is responsible for custody of the assets of the fund. The Scheme does not have a direct relationship with the custodian.

Newton – Multi Asset

The Scheme invests in a multi-asset strategy via a pooled fund called the Real Return Fund. The Scheme first invested in this fund on 6 October 2023.

- The objective of this fund is to outperform the return of SONIA by 4% pa, before the deduction of fees, over rolling five-year periods
- The expected volatility of the fund is between equities and bonds over the longer-term
- The fund is structured as an OEIC and is daily dealing. It is open ended and is unlisted.

Newton is responsible for custody of the assets of the fund, which is delegated to BNY Mellon. The Scheme does not have a direct relationship with the custodian.

Columbia Threadneedle Investments ("CTI") – LDI, synthetic equity, synthetic credit

The Scheme invests in LDI, synthetic equity and synthetic credit via a bespoke pooled fund called the LDI Private Sub-Fund 62 GBP. The Scheme first invested in this fund on 24 May 2023.

- The objective for the LDI portfolio is to hedge a pre-defined portion of the Scheme's liabilities against changes in interest rates and inflation expectations (based on a bespoke liability benchmark proxy). The target hedge levels are confirmed in the SIP.
- The objective for the synthetic equity and credit portfolios is to provide synthetic exposures to the relevant asset classes.
- The fund is structured as a Luxembourg Fonds Commun de Placement and is daily dealing. It is open ended and is unlisted.

CTI is responsible for custody of the assets of the fund, which is delegated to State Street. The Scheme does not have a direct relationship with the custodian.

Insight – Short duration credit

The Scheme invests in short duration credit via a pooled fund called the Maturing Buy and Maintain Bond Fund 2021-2025.

- The objective for the short duration credit portfolio, from a Trustee perspective, is to provide income and bond repayments so as to broadly meet the Scheme's cashflow needs until early 2026, whilst providing a modest return above gilts.
- The official objective of the fund is to generate a return by investing in a portfolio of debt securities, with returns provided principally from the maturity of investments within the maturity period specified (in this case 2021-2025). This maturity period means that the Scheme's investment in this fund is expected to run off to nil by 2026.
- The fund is a sub-fund of Insight's LDI Solutions Plus ICAV, an umbrella-type, Irish-domiciled collective asset-management vehicle. The fund is structured as a QIAIF (Qualifying Investor Alternative Investment Fund) and deals on the 8th and 22nd of each calendar month (or the business day following those dates). It is open ended and is unlisted.

Insight is responsible for custody of the assets of the fund, which is delegated to Northern Trust. The Scheme does not have a direct relationship with the custodian.

Additional Voluntary Contributions

Royal London is the provider of AVC arrangements in the Scheme. The options available to members are as follows: With-Profits Fund, UK Equity Fund, Pacific Fund, Managed Fund. Due to the closure of the Scheme to future accrual, no further AVC contributions are being made into these funds.